

**NOXUBEE GENERAL CRITICAL ACCESS HOSPITAL
AND NOXUBEE COUNTY NURSING HOME
MACON, MISSISSIPPI**

**AUDITED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
SEPTEMBER 30, 2015**

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Audited Financial Statements and Additional Information
September 30, 2015**

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Independent Auditors' Report

Board of Trustees
Noxubee General Critical Access Hospital
and Noxubee County Nursing Home
Macon, Mississippi

We have audited the accompanying financial statements of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of and for the years ended September 30, 2015 and 2014 and the related notes to financial statements, which collectively comprise Noxubee General Critical Access Hospital and Noxubee County Nursing Home's basic financial statements as listed in the contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of September 30, 2015 and 2014 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial information of Noxubee General Critical Access Hospital and Noxubee County Nursing Home and do not purport to, and do not, present fairly the financial position of Noxubee County, Mississippi as of September 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis (pages 3 – 7) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of surety bonds for officials and employees is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of surety bonds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of surety bonds is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2016 on our consideration of the Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reports and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control over financial reporting and compliance.

Eupora, Mississippi
April 8, 2016

Watkins Ward and Stafford, PLLC

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

Our discussion and analysis of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's financial performance provides an overview of the facility's financial activities for the fiscal years ended September 30, 2015, and 2014. Please read it in conjunction with the facility's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- ◆ The facility's net position increased from 2014 to 2015 by \$1,383,810 or 14.86%, and decreased from 2013 to 2014 by \$648,472 or 6.51%.
- ◆ The facility reported operating income of \$1,355,885 in 2015 and an operating loss of \$565,812 in 2014.
- ◆ The facility received Medicaid upper payment limit payments of \$1,168,155 for the year ended September 30, 2015, and \$1,263,963 for the year ended September 30, 2014, this is a decrease of \$95,808.

USING THIS ANNUAL REPORT

The facility's financial statements consist of three statements – a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the facility, including resources held by the facility but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the facility finances begins on page 4. One of the most important questions asked about the facility's finances is, "Is the facility as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the facility's net position and changes in them. You can think of the facility's net position – the difference between assets and liabilities – as one way to measure the facility's financial health, or financial position. Over time, increases or decreases in the facility's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the facility's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the facility.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

THE FACILITY'S NET POSITION

The facility's net position is the difference between its assets and liabilities reported in the Statements of Net Position on pages 8 and 9. The facility's net position increased from 2014 to 2015 by \$1,383,810 or 14.86%, and decreased from 2013 to 2014 by \$648,472 or 6.51% as reflected in Table 1.

The change in the facility's net position is due to several factors.

Cash and cash equivalents increased by \$2,074,398 in 2015.

During 2015, the facility's net accounts receivable decreased by \$135,058, compared to a decrease of \$430,031 in 2014.

During 2015, the facility's estimated third-party payor settlement decreased by \$102,047, compared to a decrease of \$1,056,977 in 2014.

The facility acquired capital assets in the amounts of \$114,854 and \$198,940 for the years 2015 and 2014, respectively. Depreciation and amortization expenses amounted to \$703,597 in 2015 and \$745,951 in 2014.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets:			
Current assets	\$ 9,538,132	\$ 8,286,114	\$ 7,765,381
Noncurrent cash and investments	4,000,000	4,000,000	4,000,000
Capital assets, net	2,431,647	3,030,126	3,578,588
Other noncurrent assets	124,947	124,947	124,947
Total Assets	\$ 16,094,726	\$ 15,441,187	\$ 15,468,916
Liabilities:			
Current liabilities	\$ 1,999,566	\$ 2,483,277	\$ 1,637,853
Long-term debt outstanding	3,397,293	3,643,853	3,868,534
Total Liabilities	5,396,859	6,127,130	5,506,387
Net Position:			
Invested in capital assets, net of related debt (deficit)	(1,205,931)	(859,959)	(521,994)
Unrestricted	11,903,798	10,174,016	10,484,523
Total Net Position	10,697,867	9,314,057	9,962,529
Total Liabilities and Net Position	\$ 16,094,726	\$ 15,441,187	\$ 15,468,916

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION

Table 2: Operating Results

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenues:			
Net patient service revenues	\$ 18,734,171	\$ 15,939,535	\$ 17,804,247
Other revenues	1,363,386	1,346,897	1,712,947
Incentive payments for E H R	<u>76,799</u>	<u>61,964</u>	<u>587,213</u>
Total Operating Revenues	<u>20,174,356</u>	<u>17,348,396</u>	<u>20,104,407</u>
Operating Expenses:			
Salaries and benefits	11,899,600	11,260,940	10,198,343
Supplies and drugs	1,600,420	1,592,066	1,865,556
Other operating expenses	4,339,872	4,054,058	4,445,885
Insurance	274,982	261,193	276,955
Depreciation and amortization	<u>703,597</u>	<u>745,951</u>	<u>838,839</u>
Total Operating Expenses	<u>18,818,471</u>	<u>17,914,208</u>	<u>17,625,578</u>
Operating Income (Loss)	<u>1,355,885</u>	<u>(565,812)</u>	<u>2,478,829</u>
Nonoperating Revenues (Expenses):			
Investment income	41,835	35,587	26,191
Interest expense	130,666	(173,834)	(177,764)
Noncapital grants and contributions	-	56,804	89,873
Loss on disposal of capital assets	<u>(144,576)</u>	<u>(1,217)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>27,925</u>	<u>(82,660)</u>	<u>(61,700)</u>
Increase (Decrease) in Net Position	1,383,810	(648,472)	2,417,129
Net Position Beginning of Year	<u>9,314,057</u>	<u>9,962,529</u>	<u>7,545,400</u>
Net Position End of Year	<u>\$ 10,697,867</u>	<u>\$ 9,314,057</u>	<u>\$ 9,962,529</u>

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

OPERATING RESULTS AND CHANGES IN THE FACILITY'S NET POSITION (Continued)

Operating Income

The first component of the overall change in the facility's net position is its operating income – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The facility reported operating income of \$1,355,885 in 2015 as compared to an operating loss of \$565,812 in 2014. The operating loss of \$565,812 in 2014 compared to an operating income of \$2,478,829 in 2013.

The primary components responsible for the fluctuations in operating income are:

- ◆ An increase in net patient service revenue of \$2,794,636 from 2014 to 2015 as compared to a decrease of \$1,864,712 from 2013 to 2014.
- ◆ Medicaid UPL payments decreased by \$95,808 from 2014 to 2015 as compared to a decrease of \$1,587,377 from 2013 to 2014. Medicaid UPL payments totaled \$1,168,155 in 2015, \$1,263,963 in 2014, and \$2,851,340 in 2013.
- ◆ Incentive payments for electronic health records technology of \$76,799 was received in 2015 compared to \$61,964 in 2014 and \$587,213 in 2013.
- ◆ An increase in operating expenses of \$904,263 from 2014 to 2015 as compared to an increase of \$288,630 from 2013 to 2014.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest income, net investment earnings, and noncapital grants and contributions. The facility had interest income, primarily from checking accounts and certificates of deposit, of \$41,835 for the year ended September 30, 2015, and \$35,587 for the year ended September 30, 2014. The facility also recorded expenses paid and funds contributed by Noxubee County, Mississippi and other agencies in the amounts of \$130,666 and \$56,804 for the years ended September 30, 2015, and 2014, respectively.

Nonoperating expenses consist of interest expense in the amount of \$144,576 in 2015, and \$173,834 in 2014.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Management's Discussion and Analysis
Years Ended September 30, 2015, and 2014**

THE FACILITY'S CASH FLOWS

Changes in the facility's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015 and 2014, the facility's investment in capital assets net of accumulated depreciation was \$2,431,647 and \$3,030,126, respectively. In 2015, the facility purchased capital assets costing \$114,854. In 2014, the facility purchased capital assets costing \$198,706.

Debt

At year-end, the facility had \$3,637,578 in long-term debt outstanding as compared to \$3,890,085 in 2014. The facility did not issue new debt in 2015 or 2014, while making \$252,507 in principal payments in 2015 and \$210,497 in principal payments in 2014.

CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the facility's finances and to show the facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Noxubee General Critical Access Hospital and Noxubee County Nursing Home's administrative Offices at (662) 726-4231.

Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Statements of Net Position
September 30,

	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,099,450	\$ 4,025,052
Cash - Nursing home residents' funds	23,239	25,051
Health insurance trust fund	83,996	152,381
Patient accounts receivable (net of estimated uncollectibles and allowances of \$2,865,001 in 2015 and \$3,545,451 in 2014.)	2,448,480	2,583,538
Other receivable	369,956	1,038,334
Physician loan receivable	34,142	20,000
Inventory, at lower of cost (first-in, first-out) or market	253,255	226,708
Accrued interest receivable	2,435	1,430
Prepaid expenses	223,179	213,620
Total Current Assets	9,538,132	8,286,114
Noncurrent Cash and Investments:		
Restricted by board for capital improvements	4,000,000	4,000,000
Capital Assets:		
Land	69,166	69,166
Depreciable capital assets (Net of accumulated depreciation and amortization of \$8,431,266 in 2015 and \$7,727,669 in 2014)	2,362,481	2,951,224
Construction in progress	-	9,736
Total Capital Assets, Net of Accumulated Depreciation and Amortization	2,431,647	3,030,126
Other Assets:		
Equity in Healthcare Providers Insurance Company	124,947	124,947
Total Assets	\$ 16,094,726	\$ 15,441,187

The accompanying notes to financial statements are an integral part of these financial statements.

Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Statements of Net Position
September 30,

	2015	2014
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 527,367	\$ 952,524
Funds held for nursing home residents	23,239	25,051
Accounts receivable credit balances	283,588	310,083
Accrued expenses and payroll withholdings	729,675	651,928
Estimated third-party payor settlement	195,412	297,459
Current portion of bonds payable	210,339	217,458
Current installments of notes payable	29,946	28,774
Total Current Liabilities	1,999,566	2,483,277
Long-Term Debt (Net of Current Maturities):		
Bonds payable	3,278,390	3,497,262
Notes payable	118,903	146,591
Total Long-Term Debt	3,397,293	3,643,853
Total Liabilities	5,396,859	6,127,130
Net Position:		
Invested in capital assets, net of related debt (deficit)	(1,205,931)	(859,959)
Unrestricted	11,903,798	10,174,016
Total Net Position	10,697,867	9,314,057
Total Liabilities and Net Position	\$ 16,094,726	\$ 15,441,187

The accompanying notes to financial statements are an integral part of these financial statements.

Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30,

	2015	2014
Operating Revenues:		
Net patient service revenue (net of provision for bad debts of \$969,040 in 2015 and \$1,909,989 in 2014.)	\$ 18,734,171	\$ 15,939,535
Other revenues	1,363,386	1,346,897
Incentive payments for electronic health record technology	76,799	61,964
Total Operating Revenues	20,174,356	17,348,396
Operating Expenses:		
Salaries and benefits	11,899,600	11,260,940
Medical supplies and drugs	1,600,420	1,592,066
Other operating expenses	4,339,872	4,054,058
Insurance	274,982	261,193
Depreciation and amortization	703,597	745,951
Total Operating Expenses	18,818,471	17,914,208
Operating Income (Loss)	1,355,885	(565,812)
Nonoperating Revenues (Expenses):		
Investment income	41,835	35,587
Noncapital grants and contributions	130,666	56,804
Loss on asset disposal	-	(1,217)
Interest expense	(144,576)	(173,834)
Total Nonoperating Revenues (Expenses)	27,925	(82,660)
Excess of Revenues Over (Under) Expenses	1,383,810	(648,472)
Net Position Beginning of the Year	9,314,057	9,962,529
Net Position End of the Year	\$ 10,697,867	\$ 9,314,057

The accompanying notes to financial statements are an integral part of these financial statements.

Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Statements of Cash Flows
Years Ended September 30,

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Receipts from and on behalf of patients	\$ 19,943,877	\$ 17,118,185
Payments to suppliers and contractors	(7,087,212)	(5,850,552)
Payments to and on behalf of employees	(11,739,991)	(11,415,664)
Other receipts and payments, net	<u>1,316,048</u>	<u>1,436,584</u>
Net Cash Provided by Operating Activities	<u>2,432,722</u>	<u>1,288,553</u>
 Cash Flows From Noncapital Financing Activities:		
Noncapital grants and contributions	<u>130,666</u>	<u>56,804</u>
 Cash flows From Capital and Related Financing Activities:		
Principal payments on bonds payable	(225,991)	(173,903)
Principal payments on notes payable	(26,516)	(36,594)
Interest paid on long-term debt	(172,195)	(201,453)
Purchase of capital assets	<u>(105,118)</u>	<u>(198,706)</u>
Total Cash Flows Used by Capital and Related Financing Activities	<u>(529,820)</u>	<u>(610,656)</u>
 Cash Flows From Investing Activities:		
Investment income	<u>40,830</u>	<u>36,292</u>
 Net Increase in Cash and Cash Equivalents	2,074,398	770,993
 Cash and Cash Equivalents, Beginning of Year	<u>4,025,052</u>	<u>3,254,059</u>
 Cash and Cash Equivalents, End of Year	<u>\$ 6,099,450</u>	<u>\$ 4,025,052</u>

The accompanying notes to financial statements are an integral part of these financial statements.

Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Statements of Cash Flows
Years Ended September 30,

	2015	2014
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ 1,355,885	\$ (565,812)
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	703,597	745,951
Provision for bad debts	969,040	1,909,989
Changes in:		
Patient accounts receivable	(860,477)	(995,801)
Inventories and other current assets	686,515	(938,785)
Accounts payable, accrued expenses, and other current liabilities	(319,791)	76,034
Estimated third-party payor settlements	(102,047)	1,056,977
Net Cash Provided by Operating Activities	\$ 2,432,722	\$ 1,288,553

The accompanying notes to financial statements are an integral part of these financial statements.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity - Noxubee General Critical Access Hospital and Noxubee County Nursing Home, (the “facility”), is a 25-bed critical access hospital and a 60-bed long-term care nursing home owned by Noxubee County, Mississippi. The facility provides inpatient, outpatient, emergency, long-term care, and rural clinical services for residents of Noxubee County, Mississippi, and surrounding areas. The hospital is governed by a Board of Trustees appointed by the Board of Supervisors of Noxubee County.

Under *Governmental Accounting Standards Board (GASB) Statement Number 14: The Financial Reporting Entity*, the facility is defined as a component unit of Noxubee County, Mississippi. These financial statements present only the financial position and results of operations and cash flows of Noxubee General Critical Access Hospital and Noxubee County Nursing Home.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for uncollectibles and third-party settlements.

Enterprise Fund Accounting - The facility uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents - Cash and cash equivalents include unrestricted cash used for operating purposes only.

Accounts Receivable - Patient receivables are reduced by an allowance for uncollectible accounts. The allowance for uncollectible accounts is based upon management’s assessment of historical and expected net collections considering historical and economic conditions, trends in healthcare coverage, major payor sources and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, established guidelines are used for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts.

Capital Assets – The facility’s policy is to capitalize acquisition and construction costs greater than \$5,000 which will provide benefit to future periods. The facility’s capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized using the straight-line method of depreciation using these asset lives:

Land improvements	10 to 30 years
Buildings and building improvements	5 to 50 years
Equipment, computers, and furniture	3 to 15 years

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

**Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)**

Cost of Borrowing - Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The facility capitalized no interest cost in 2015 or 2014.

Grants and Contributions - From time to time, the facility receives grants from Noxubee County and the State of Mississippi as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources - When the facility has both restricted and unrestricted resources available to finance a particular program, it is the facility's policy to use restricted resources before unrestricted resources.

Net Position - Net position of the facility are classified in two components. *Net position invested in capital assets net of related debt (deficit)* consists of capital assets net of accumulated depreciation and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* are the remaining net position that do not meet the definition of *invested in capital assets net of related debt*.

Net Patient Services Revenue - The facility has agreements with third-party payors that provide for payments to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues and Expenses - The facility's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the facility's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care - The facility provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The cost of charity care provided in 2015 and 2014 approximated \$109,000 and \$144,000, respectively.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Risk Management - The facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health benefits. The facility purchases coverage of risks of loss related to torts and malpractice up to \$500,000 per case from the Healthcare Providers Insurance Company. The facility purchases coverage of risks of loss related to theft of, damage to, and destruction of assets, business interruption, errors and omissions, natural disasters and employee health benefits from various commercial insurance carriers. The facility purchases coverage of risk of loss related to workers' compensation claims from Midwest Workers' Compensation Specialist.

Under *Governmental Accounting Standards Board Statement Number 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for a claim must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The facility has not been exposed to any risk of loss above the applicable insurance coverage amounts at September 30, 2015; therefore, no liability has been accrued at this time.

Income Taxes - As a political subdivision of the State of Mississippi, the facility qualifies as a tax exempt organization under existing provisions of the Internal Revenue Code, and its income is not subject to federal or state income taxes.

Inventories of Supplies and Drugs - Inventories of supplies and drugs are stated at the lower of cost (first-in, first-out) or market.

Excess of Revenue Over (Under) Expenses - The statements of revenues, expenses, and changes in net position includes excess of revenues over (under) expenses. Changes in net position which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Electronic Health Record Incentive Program - The Centers for Medicare and Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. For the year ended September 30, 2015 and 2014 the facility received EHR incentive revenue of \$76,799 and \$61,964, respectively. EHR incentive revenues are included in operating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 2: Designated Net Assets

Of the \$11,903,798 and \$10,174,016 of unrestricted net assets reported in 2015 and 2014, respectively, \$4,000,000 in 2015 and \$4,000,000 in 2014 has been designated by the facility's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Note 3: Deposits and Investments

The collateral for public entities' deposits in financial institutions are now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Note 4: Patient Account Receivables - Estimated Uncollectibles and Allowances

The balance in the estimated uncollectibles and allowances account at September 30, 2015 and 2014 is composed of the following:

	<u>2015</u>	<u>2014</u>
Provision for uncollectible accounts	\$ 2,503,001	\$ 2,889,451
Allowance for Medicare adjustment	290,000	520,000
Allowance for Medicaid adjustment	<u>72,000</u>	<u>136,000</u>
	<u>\$ 2,865,001</u>	<u>\$ 3,545,451</u>

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 5: Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2015, and 2014 were as follows:

	Balance September 30, 2013	Additions	Other/ Retirements	Balance September 30, 2014	Additions	Other/ Retirements	Balance September 30, 2015
Land	\$ 74,166	-	(5,000)	\$ 69,166	-	-	\$ 69,166
Land improvements	196,661	16,007	-	212,668	16,800	-	229,468
Buildings and improvements	6,698,935	8,710	-	6,707,645	-	-	6,707,645
Fixed equipment	314,023	-	-	314,023	-	-	314,023
Motor vehicles	118,127	-	-	118,127	-	-	118,127
Major Moveable Equipment:							
Under capital lease	-	-	-	-	-	-	-
Other	3,842,448	174,223	(704,008)	3,312,663	98,054	-	3,410,717
Minor equipment	13,767	-	-	13,767	-	-	13,767
Totals at Historical Cost	<u>11,258,127</u>	<u>198,940</u>	<u>(709,008)</u>	<u>10,748,059</u>	<u>114,854</u>	<u>-</u>	<u>10,862,913</u>
Less accumulated depreciation for:							
Land improvements	(102,479)	(9,448)	-	(111,927)	(11,609)	-	(123,536)
Buildings and improvements	(4,646,704)	(274,481)	-	(4,921,185)	(263,496)	-	(5,184,681)
Fixed equipment	(285,081)	(4,547)	-	(289,628)	(4,494)	-	(294,122)
Motor vehicles	(55,287)	(22,959)	-	(78,246)	(21,709)	-	(99,955)
Major moveable equipment	(2,596,143)	(434,516)	703,976	(2,326,683)	(402,289)	-	(2,728,972)
	<u>(7,685,694)</u>	<u>(745,951)</u>	<u>703,976</u>	<u>(7,727,669)</u>	<u>(703,597)</u>	<u>-</u>	<u>(8,431,266)</u>
Construction in progress	6,155	9,736	(6,155)	9,736	-	(9,736)	-
Capital Assets, Net	<u>\$ 3,578,588</u>	<u>(537,275)</u>	<u>(11,187)</u>	<u>\$ 3,030,126</u>	<u>(588,743)</u>	<u>(9,736)</u>	<u>\$ 2,431,647</u>

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 6: Long-Term Debt and Other Noncurrent Liabilities

A schedule of changes in the facility's long-term debt for 2015 and 2014 follows:

	Balance September 30, 2013			Balance September 30, 2014			Balance September 30, 2015		Amounts Due Within One Year
	Additions	Reductions	Additions	Reductions	Additions	Reductions			
Bonds and Notes Payable:									
General obligation bonds	\$ 3,888,623	-	(173,903)	\$ 3,714,720		(225,991)	\$ 3,488,729	\$ 210,339	
Mortgage loan	13,201	-	(13,201)	-			-	-	
Note payable	198,758	-	(23,393)	175,365		(26,516)	148,849	29,946	
Sub-total	<u>4,100,582</u>	-	<u>(210,497)</u>	<u>3,890,085</u>	-	<u>(252,507)</u>	<u>3,637,578</u>	<u>240,285</u>	
Capital lease obligations	-	-	-	-	-	-	-	-	
Total Long-Term Debt	<u>\$ 4,100,582</u>	-	<u>(210,497)</u>	<u>\$ 3,890,085</u>	-	<u>(252,507)</u>	<u>\$ 3,637,578</u>	<u>\$ 240,285</u>	

The terms and due dates of the facility's long-term debt, including capital lease obligations, at September 30, 2015 and 2014, follow:

- 4.25% general obligation community hospital taxable bonds payable to USDA Rural Development – the principal amount of this bond is being supplied by multiple advances as needed not to exceed \$4,810,000. Payments of principal and interest began May 12, 2010 through 2029. Payment of principal and interest is payable in equal annual installments in the amount of \$361,808.20.
- 4.85% note payable to Bank First, due November 30, 2017, secured by land and medical clinics. 59 monthly payments of \$2,754 of principal and interest began on December 30, 2012 and continue on the 30th day of each month thereafter. A single "balloon payment" of the entire unpaid balance of principal and interest will be due November 30, 2017.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 6: Long-Term Debt and Other Noncurrent Liabilities (Continued)

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending September 30:</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2016	240,285	157,325
2017	248,271	146,585
2018	319,051	133,445
2019	238,888	122,920
2020	249,241	112,567
Thereafter	<u>2,341,842</u>	<u>464,210</u>
Total	\$ <u>3,637,578</u>	\$ <u>1,137,052</u>

Note 7: Net Patient Service Revenue

The facility has agreements with third-party payors that provide for payments to the facility at amounts different from its established rates. A summary of the payment arrangements with third-party payors follows:

Medicare - Inpatient acute care services, outpatient services, non-acute inpatient services and rural health clinic services rendered to Medicare program beneficiaries are paid based upon a cost reimbursement methodology. The hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare fiscal intermediary. The facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2012.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The facility is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the facility and audits thereof by the Medicaid fiscal intermediary. Nursing home services are reimbursed under a cost based case mix reimbursement system.

Medicaid Upper Payment Limit Payments - The hospital recorded Medicaid upper payment limit payments of \$1,168,155 for the year ended September 30, 2015 and \$1,263,963 for the year ended September 30, 2014.

The Medicaid Upper Payment Limit Program is a program whereby the hospital qualifies for upper payment limit funds in addition to regular funds. The Division of Medicaid administers the upper payment limit program and the continuation of the program rests with the federal government.

Medicaid Disproportionate Share Payment – The hospital recorded Medicaid disproportionate share payments of \$375,327 and \$11,766 for the years ended September 30, 2015 and 2014, respectively.

The Medicaid disproportionate share program is a program whereby the hospital qualifies for disproportionate share funds in addition to regular funds as a result of providing care to a disproportionate share of low-income patients as well as providing certain required services. The Mississippi Division of Medicaid controls the disproportionate share program and the continuation of the program rests with the agency.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 7: Net Patient Service Revenue (Continued)

A summary of gross and net patient service revenue for the years ended September 30, 2015 and 2014:

	2015	2014
Gross patient service revenues	\$ 24,836,728	\$ 23,952,211
Less provision for bad debts	(969,040)	(1,909,989)
Less provision for contractual adjustments under third-party agreements	(5,588,299)	(6,605,783)
Less provision for employee and policy discounts	(713,373)	(760,867)
Plus Medicaid Upper Payment Limit Funds	1,168,155	1,263,963
Net Patient Service Revenue	\$ 18,734,171	\$ 15,939,535

Note 8: Medical Benefit Plan

The facility has a self-funded medical benefit plan covering substantially all of its employees and certain dependents of the employees. The total benefit expense for the years ended September 30, 2015 and 2014 amounted to \$722,415 and \$650,959, respectively. The facility's policy is to fund the estimated medical benefit claims that will be filed against the plan less the contributions made by employees covered by the plan. In addition, an allowance representing the write-off of charges applicable to in-house claims of the employees and their dependents for the years ended September 30, 2015 and 2014 was provided in the amount of \$311,570 and \$302,625 respectively.

Note 9: Retirement Plan

A defined contribution plan for employees was established by the facility on January 1, 1978, covering all regular permanent employees who have completed one year of service. The plan generally provides for retirement benefits based on earnings and length of service with normal retirement at age 65 and early retirement at age 55 provided that employees have completed fifteen (15) years of service; disability and death benefits are also provided. Contributions to the plan are made by the facility and additional contributions can be made at the discretion of the employee. The facility contributes 5% of an employee's compensation up to \$12,000 and 9.3% of an employee's compensation in excess of \$12,000. The 2015 and 2014 employer contributions were \$480,943 and \$415,900, respectively. The 2015 and 2014 employee contributions were \$287,152 and \$248,913, respectively.

Note 10: Commitments

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense in 2015 and 2014 for all operating leases was approximately \$49,492 and \$51,027, respectively.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Notes to Financial Statements**

Note 11: Concentrations of Credit Risk

The facility grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2015 and 2014, was as follows:

	2015	2014
Medicare	19%	40%
Medicaid	8%	13%
Patients and other third-party payors	<u>73%</u>	<u>47%</u>
	<u>100%</u>	<u>100%</u>

Note 12: Other Assets

Included in other assets on the Statements of Net Position is an investment in Healthcare Providers Insurance Company. The facility is a subscriber in the insurance company. The amount of the hospital's investment is \$124,947 for 2015 and \$124,947 for 2014. The hospital has elected to report this investment at cost since there is not a market for the ownership interest in the company.

Note 13: Litigation

The hospital is a defendant in lawsuits arising from normal business activities. Management and attorneys for the hospital do not expect any significant liability to result from these matters in excess of their insurance coverage.

Note 14: Subsequent Events

Events that occur after the Statements of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Noxubee General Critical Access Hospital and Noxubee County Nursing Home evaluated the activity of the facility through April 8, 2016, (the date the financial statement were available to be issued), and determined that there were no subsequent events requiring disclosures in the notes to the financial statements.

**Noxubee General Critical Access Hospital and Noxubee County Nursing Home
Schedule of Surety Bonds for Officials and Employees
Year Ended September 30, 2015**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Amount of bond</u>
Vance Taylor	Trustee	Travelers	\$100,000
James Gillespie	Trustee	Travelers	\$100,000
Wesley Lee	Trustee	Western Surety	\$100,000
William Skinner	Trustee	Travelers	\$100,000
Willie Mary Reece	Trustee	Western Surety	\$100,000
James Mason, II	Trustee	Western Surety	\$100,000
Betty Robinson	Trustee	-	-
Danny McKay	Administrator	Western Surety	\$100,000



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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S. Keith Winfield, CPA
William B. Stagers, CPA
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Thomas A. Davis, CPA
Anita L. Goodrum, CPA
Ricky D. Allen, CPA
Jason D. Brooks, CPA
Robert E. Cordle, Jr., CPA
Perry C. Rackley, Jr.,

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed
In Accordance with *Government Auditing Standards***

Board of Trustees
Noxubee General Critical Access Hospital
and Noxubee County Nursing Home
Macon, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of and for the years ended September 30, 2015, and 2014, and the related notes to financial statements, which collectively comprise Noxubee General Critical Access Hospital and Noxubee County Nursing Home's basic financial statements as listed in the contents, and have issued our report thereon dated April 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control. Accordingly, we do not express an opinion on the effectiveness of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the following paragraphs that we consider to be a significant deficiency.

1. **Finding** – The operating bank account of the facility was not reconciled in a timely manner.

Recommendation – The hospital should implement procedures to ensure that the operating bank account is reconciled in a timely manner.

Response – The hospital implemented procedures to ensure that the bank reconciliations will be done in a timely manner.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Noxubee General Critical Access Hospital and Noxubee County Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Noxubee General Critical Access Hospital and Noxubee County Nursing Home's Response to Findings

Noxubee General Critical Access Hospital and Noxubee County Nursing Home's response to the findings identified in our audit is described previously. Noxubee General Critical Access Hospital and Noxubee County Nursing Home's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eupora, Mississippi
April 8, 2016

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
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Independent Auditors' Report on Compliance with State Laws and Regulations

Board of Trustees
Noxubee General Critical Access Hospital
and Noxubee County Nursing Home
Macon, Mississippi

We have audited the financial statements of Noxubee General Critical Access Hospital and Noxubee County Nursing Home, a component unit of Noxubee County, Mississippi, as of and for the year ended September 30, 2015, and have issued our report thereon dated April 8, 2016.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state laws and regulations applicable to Noxubee General Critical Access Hospital and Noxubee County Nursing Home is the responsibility of the facility's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Noxubee General Critical Access Hospital and Noxubee County Nursing Home's compliance with certain provisions of state laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate, with respect to the items tested, Noxubee General Critical Access Hospital and Noxubee County Nursing Home complied with the provisions referred to in the preceding paragraph, except as stated in the following paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the facility had not complied with state laws and regulations.

Condition – At September 30, 2015, there was a board member whose surety bond did not get renewed in a timely manner as a result of the renewal invoice being sent to the board member's mailing address.

Recommendation – We recommend the surety bond for the board member be renewed and the mailing address be changed to the facility's mailing address as soon as possible.

Response – The facility has subsequently corrected the mailing address with the insurance company and the surety bond premium has been paid and renewed.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the facility, and the Board of Supervisors of Noxubee County, Mississippi, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Eupora, Mississippi
April 8, 2016

Watkins Ward and Stafford, PLLC